

Home-Office Deduction Opportunities

If you work out of your home you're part of a growing trend. What's important to you, however, is that you may qualify for some valuable federal income tax deductions. You may be able to deduct part of your home's normal operating expenses for items such as utilities and insurance, you may be able to claim write-offs for depreciation or lease payments, depending on whether you own or rent, and you may even get some extra business car deductions. The tax-saving opportunities available to you will depend not only on the type of work you do at home, but where in the home you perform it.

You won't get any home-office-type deductions unless you regularly and exclusively use a room or specific area in your home or apartment for business. So, for example, you don't get deductions if you work out of a room that your family also uses as a den. In addition, generally the office must either be the principal place of your business, or a place where you meet or deal with clients or customers.

If you're a professional such as a doctor, dentist, or consultant who regularly meets with clients or patients in the home, you probably qualify for home-office deductions, but you may benefit from help on how best to allocate "shared" personal/business expenses.

If you don't meet with clients in your home office, qualifying for home office deductions usually still is no problem if your home is your only business location. However, the rules are more complicated if some aspects of your business are performed in the home, and others are performed outside the home. In this situation, there is a question as to whether or not the office is your principal place of business. Often, there is a fine line between qualifying and not qualifying. And the rules seem to change often. For example, starting in 1999, the home office deduction has been allowed for those whose home office is the only place in which substantial administrative or management activities take place.

If you're an employee who regularly comes home from the office with a loaded briefcase, catching up on paperwork at home won't do you any tax good. Employees qualify for home-office deductions only if they work at home for the convenience of their employer. So there are no deductions if you decide on your own to do office work during evenings and weekends, or work a couple of days a week at home because you'll get more done. And even if your employer requires you to work at home, you don't get any extra deductions unless you also get by the home-office hurdles.

One drawback to the home office deduction is the impact it may have upon the eventual sale of your home. If you have taken depreciation deductions on the part of your home you use as an office, that amount will not qualify for the tax-exemption you otherwise get on the gain from the sale of your house, although gain from depreciation recapture can be deferred if the residence is exchanged for like-kind business property. And if 100% of your home did not qualify as your principal residence for at least two of the five years preceding the sale, you will have to pay capital gains tax on the business portion of your house. Generally, though, if a home office is physically part of the residence, the entire

residence qualifies for the home-sale exclusion. An additional consideration for the many taxpayers who now find themselves within the reach of the alternative minimum tax (AMT) is the requirement that some prior depreciation may be subject to "recapture" as additional income for AMT purposes.

As you can see, working at home is anything but simple from a tax standpoint. We'll be happy to supply complete details on how the rules work in your situation, and how to make the most of them. If you need any help, don't hesitate to call. We can help you weigh the advantages of a home office deduction against the potential for subsequent increased taxes. You should also call us if you've been taking a home office deduction and you're now thinking of selling your combined home/office. With some advance tax planning, you may be able to minimize taxes on the transaction.